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## **CREATING NEW VENTURES: A REVIEW AND RESEARCH AGENDA**

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## **ABSTRACT**

Creating new ventures is one of the most central topics to entrepreneurship and is a critical step from which many theories of management, organizational behavior, and strategic management build. Therefore, this review and proposed research agenda is not only relevant to entrepreneurship scholars but also other management scholars who wish to challenge some of the implicit assumptions of their current streams of research and extend the boundaries of their current theories to earlier in the organization's life. Given that the last systematic review of the topic was published 16 years ago, and that the topic has evolved rapidly over this time, an overview and research outlook are long overdue. From our review, we inductively generated ten sub-topics: (1) Lead founder, (2) Founding team, (3) Social relationships, (4) Cognitions, (5) Emergent organizing, (6) New venture strategy, (7) Organizational emergence, (8) New venture legitimacy, (9) Founder exit, and (10) Entrepreneurial environment. These sub-topics are then organized into three major stages of the entrepreneurial process—co-creating, organizing, and performing. Together, the framework provides a cohesive story of the past and a road map for future research on creating new ventures, focusing on the links connecting these sub-topics.

## INTRODUCTION

The creation of new ventures is the source of most new employment in an economy (Audretsch & Thurik, 2001), new industries (Schumpeter, 1950), innovations (McKelvie, Wiklund, & Brattström, 2018), and solutions to both social (Williams & Shepherd, 2016) and environmental (York, Hargrave, & Pacheco, 2016) problems. However, most management research begins with the existence of an organization and then attempts to explain heterogeneity amongst organizations in terms of various *attributes* (e.g., Hillman, Withers, and Collins 2009), *forms* (e.g., Dunning & Lundan, 2008), and *outcomes* (e.g., Covin, Green, & Slevin, 2006). Research on starting up a new venture increases our understanding of the creation and emergence of organizations that eventually become the topic of the majority of management research.

However, there are a number of challenges in researching the starting up of new organizations. First, there are challenges in sourcing samples for investigation, since researchers need to identify something before it has been created. Second, many efforts at starting a new venture are abandoned and many new ventures are terminated (Ucbasaran et al., 2013); this compounds the sample selection process and makes research on startups challenging due to potential biases (McGrath, 1999). Finally, traditional measures and research designs are unlikely to apply to pre- and early-stage organizations and the introduction of new measures and designs are typically considered high-risk research. While these challenges do not undermine, and they may actually reflect, the value of the opportunity to research new venture creation, they have resulted in multiple, fragmented streams of research. Consequently, current research does not yet provide a cohesive body of knowledge to act as a foundation of, to link with, and to inform the substantial literature on established organizations.<sup>1</sup>

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<sup>1</sup> We note that the last comprehensive review on the topic was by Shook, Prime and McGee (2003). Even then, their review was narrowly focused on enterprising individuals and future research on individual judgement. There have been other more recent reviews focusing on an important but narrow topics within the broader domain, e.g., the lean startup methodology (Bortolini et al., Forthcoming; Shepherd and Gruber, Forthcoming). Moreover, while new venture creation is central to entrepreneurship research, we note that the former is a subset of the latter.

In this paper, we review research on the starting up of a new organization, organize the information into an overarching framework, and use the framework to propose opportunities for future research. In the following sections, we first detail our method for paper selection. Second, we review the papers based on 10 inductively-generated sub-topics and three overarching themes. Third, we offer a research agenda primarily based on connecting the key constructs highlighted in our review.

### **METHOD FOR SYSTEMATIC REVIEW**

We conducted a systematic review by first selecting keywords, journals, and a period for the investigation. Because we wanted the initial search to be broad, we searched for the keywords “new firm”, “new venture”, “new business”, “start\*”, “found”, “create”, and “launch”. We searched in the top management (i.e., *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *Strategic Management Journal*, *Organization Science*, *Journal of Management*, and *Journal of Management Studies*) and the top entrepreneurship journals (i.e., *Journal of Business Venturing*, *Entrepreneurship Theory and Practice*, and the *Strategic Entrepreneurship Journal*). The timespan for the search was 2013-2019, because the last review of new venture creation was conducted in 2003 (Shook, Priem, & McGee, 2003). This initial search led to 346 papers.

We then read each paper to assess whether the paper should be included in the review and began to categorize the papers. We excluded 194 papers for several reasons. First, consistent with other reviews, we excluded papers that were commentaries, introductions to special issues, review papers (including meta-analyses), replications, research method papers, retractions, and teaching cases ( $n = 44$ ). Second, because we decided to take a management perspective, we excluded papers that were not at the individual-, team-, or organization- level of analysis such as sociological studies of populations, economic studies at the national and regional level of

analysis, and studies of rates of new venture creation ( $n = 82$ ). Third, because there are differences between new independent-ventures and new corporate-ventures (i.e., differences between *de novo* and *de alio* ventures [Carroll, et al., 1996]) and our interest lies on starting up from scratch, we excluded papers that focused on corporate entrepreneurship, spin offs, and portfolios of ventures ( $n = 25$ ). Finally, we excluded papers on topics not directly about the startup of a new venture such as papers focused on opportunity, self-employment, ventures beyond their earliest stages, venture funding (that often relates to scaling rather than starting a venture) and other topics ( $n = 93$ ). After these exclusions, we fully reviewed the remaining 143 papers.

We inductively categorized the relevant papers into 10 categories: (1) Lead founder, (2) Founding team, (3) Social relationships, (4) Cognitions, (5) Emergent organizing, (6) New venture strategy, (7) Organizational emergence, (8) New venture legitimacy, (9) Founder exit, and (10) Entrepreneurial environment. We further organized these categories into an overarching framework (Figure 1) that provides coherence to the review and offers a visual representation of where future research can make important contributions to our knowledge of starting up new ventures. As illustrated in Figure 1, there are three major stages of starting up a new (independent) venture—co-creating a startup, organizing a startup, and performing a startup. In the co-creating stage a lead entrepreneur typically forms a founding team and this group uses its social relationships and cognitions to engage in co-constructing a new venture with its community of inquiry—an informal body of stakeholders with a shared interest in a potential opportunity (Autio, Dahlander, & Frederiksen, 2013; Shepherd, 2015)—and begins to attract potential stakeholders. In the organizing stage, the new venture establishes operational activities and formulates and enacts a strategy that, along with the founding team, the community of inquiry, and the external environment, impact the critical outcomes of legitimacy, organizational

emergence, and founder exit. In the performing stage, the outcomes from the previous stage are inter-related such that the organization's emergence facilitates legitimacy and founder exit, and these outcomes feedback into the other stages of the model. All stages are influenced by, and influence, the external environment.

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## CO-CREATING A STARTUP VENTURE

### Lead Founder and Starting Up a New Venture

A *founder* refers to a person who creates a venture, that is, facilitates the emergence of a new venture. Even in case of ventures created by a team, individual founder attributes are important for new-venture creation, especially the attributes of the lead founder (Wasserman, 2017), who is the member of the founding team most responsible for managing the startup process. The literature informed us that founders are heterogeneous in experiences, employment position, entrepreneurial imaginativeness, motivation and identity, affective responses, and enduring characteristics. These varying founder-attributes affect new venture creation, as we describe below.

First, **startups are founded by individuals with specific experiences and these experiences are varied as are their impact on the starting up of new ventures.** For example, for the creation of a new venture, a founder with *managerial experience*—knowledge about operating a business—is particularly valuable in the pursuit of opportunities in highly dynamic external environments whereas a founder with *industry experience*—previously worked in the same industry as the new venture—is particularly valuable in the pursuit of opportunities in less dynamic external environments (Dencker & Gruber, 2015). *Entrepreneurial experience* also appears to be an important attribute for founders. For example, Forbes (2005) found that founders who had previously started another venture (and those who were older) were quicker in

making decisions and committing their venture to action than were founders without entrepreneurial experience (and those who were younger). While most studies of the implications of entrepreneurial experience do not consider the level of success associated with those experiences, one study found that new ventures created by founders with entrepreneurial experience performed better (in terms of survival time) than founders without entrepreneurial experience, regardless of whether the prior experience was with a successful or a failed venture.

However, founder experience is not necessarily an unambiguous blessing; a founder's experience with a product market, geographic market, or resource will focus his or her attention towards those domains and perhaps remain blind to other opportunities and possibilities beyond these domains (Fern, Cardinal, & O'Neill, 2012; Gruber, MacMillan, & Thompson, 2013; Shepherd, McMullen, & Ocasio, 2017). Similarly, although individuals returning from another country to their home country to start a business have different experiences from those who never left their home country (and a higher stock of initial social capital [Prashantham & Dhanaraj, 2010]), it appears that founders with this experience abroad were slower at the initial stage of the entrepreneurial process—from initial conception of the potential idea to the launch of the new venture to exploit it—than those founders without such experience (Qin, Wright, & Gao, 2017). Moreover, Levesque and Minniti (2006) proposed that there is a positive relationship between age and starting a new venture up to a point—an age threshold—after which further increases in age are associated with a decreased likelihood of starting a new venture.

Second, **founders can arise from *employee entrepreneurship***—“the intra-industry founding of a new venture by an individual who previously worked for an incumbent firm [a firm in the same industry as the startup]” (Ganco, 2013: 666). In employee entrepreneurship, the extent to which the new venture's knowledge domain overlaps with the knowledge domain of the



founder's previous employer can benefit the new venture in the transfer of effective routines and the recognition of subsequent potential opportunities (although there is evidence of diminishing returns, and perhaps even negative returns, to the new venture from considerable overlap with the founder's previous employer) (Basu, Sahaym, Howard, & Boeker, 2015). Although it seems that it would be the star performers who leave employment to found their own firm, the relationship is more complex. Star performers are more likely to leave employment to start their own firm when the employer has a low compensation dispersion system (Carnahan, Agarwal and Campbell, 2012). High earning individuals (i.e., star performers) are actually less likely to leave their employer than low earners, but if they do leave, they are more likely to start their own venture (the low earners seek employment elsewhere; Campbell, Ganco, Franco and Agarwal, 2012). Moreover, leaving employees are more likely to start their own venture, rather than seek employment elsewhere, when the knowledge they have obtained is more complex, i.e., there are many interdependencies between the knowledge components such that a change in one component impacts the way another component works (Ganco, 2013).

Third, **people with entrepreneurial imaginativeness are more likely to start up a new venture because “entrepreneurs come to imagine the opportunity for novel ventures”** (Cornelissen & Clarke, 2010: 539). Entrepreneurial imaginativeness refers to “a cognitive skill that combines the ability of imagination with the knowledge needed to stimulate various task-related scenarios in entrepreneurship (Kier & McMullen, 2018: 2266). This cognitive skill is useful in new venture creation because it helps to recognize or stimulate the construction of a potential opportunity, which can be tested and refined as the basis of a new venture (Dimov, 2007; Shepherd, Haynie, & McMullen, 2012). Perhaps some of the knowledge needed to create the various scenarios for entrepreneurial imaginativeness comes from the managerial, industry, entrepreneurial, and employment experiences detailed above.

Fourth, **an individual needs to be motivated to found a new venture, which is often reflected in the founder's identity and passion.** Farmer, Yao and Kung-McIntyre (2011: 246) explored founder's entrepreneurial *identity aspiration*—"a possible but unrealized future entrepreneurial self"—and found that those who had a stronger entrepreneurial identity aspiration engaged in more nascent entrepreneurial behaviors and even more so for founders who had prior startup experience than those who did not have such experience. It has been proposed that there are three ideal types of entrepreneurial social identity, which help explain the logic and actions of the new ventures created (Fauchart & Gruber, 2011): (1) The *Darwinian identity* reflects founders who consider themselves unique, put their self-interest at the core of the new venture, pursue private goals, and use a conventional business logic to run the new venture; (2) The *Communitarian identity* reflects founders who focus their actions based on a proximal social group and have a community-driven logic; and (3) The *Missionary identity* reflects founders who have a highly inclusive notion of stakeholders, focus on the society-at-large, and have a mission-driven logic.

Founders also have entrepreneurial passion, which acts to motivate the new venture creation process. *Entrepreneurial passion* is an "intense positive inclination towards entrepreneurial activities salient to an individual's identity... we do not conceptualize passion as a trait but rather as an affective and motivational phenomenon that an entrepreneur experiences when engaging in identity relevant activities" (Murnieks et al., 2016: 470). This passion provides the motivation for an individual to perform the tasks required to create a new venture. Indeed, entrepreneurial passion contributes to higher entrepreneurial self-efficacy, which strengthens the intention to start up a new venture (Huyghe, Knockaert, & Obschonka, 2016). Interestingly, *obsessive scientific passion*—an identity connection with the scientific role—has an indirect negative relationship to start up intention, i.e., obsessive scientific passion leads to a strong

affective commitment to the individual's current organization and thus weakens the intention to start up a new venture (Huyghe et al., 2016).

Fifth, **the founder's affect (e.g., positive emotions) plays a role in starting up a new venture**. For example, positive dispositional affect facilitates creativity and creativity generates innovative outputs during the new venture creation process; the strength of both these relationships depended on the dynamism of the external environment (Baron & Tang, 2011). Positive dispositional affect refers to the founder's general tendency to experience positive emotions, such as enthusiasm and excitement (consistent with George & Zhou, 2002) and, unlike positive state affect, is relatively enduring across time, contexts, and situations. However, a founder's positive dispositional affect may not always lead to positive outcomes. Baron, Hmieleski and Henry (2012) proposed that positive dispositional affect has an inverted u-shaped relationship with performance on many of the tasks related to new venture creation, such as opportunity recognition, opportunity evaluation, and entrepreneurial decision making.

Finally, **individuals' personalities can help explain those who found a new venture**. Specifically, in investigating the leaders of both high-tech startups and established firms, Peterson, Walumbwa, Byron and Myrowitz (2009) found that the positive psychological traits of hope, optimism and resilience have a positive association with the transformational leadership of the founder, which in turn had a positive relationship with firm performance. The positive psychological trait of *hope* refers to the perception that they have a path to a desired end goal and the agency to move down that path (Huang, Souitaris & Barsade, forthcoming; Peterson et al., 2009), *optimism* refers to a generalized belief that good things will happen (Scheier & Carver, 1985), and *resilience* refers to the capacity to maintain positive functioning in the face of adverse events (Bonanno, 2005). *Transformational leadership*, the outcome of these positive psychological traits, has a positive impact on the performance of new ventures and involves four

attributes: (1) idealized influence in which the founder's followers identify with the founder and try to emulate him or her, (2) inspirational motivation in which the founder is able to provide a strong vision of the future that motivates followers, (3) intellectual stimulation in which the founder enables followers to make the most of their potential, and (4) individualized consideration in which the founder helps followers to meet their individualized needs for personal growth (Peterson et al., 2009). Personality can also be bundled with personal resources, and the environment to explain activities and challenges in the new venture creation process (Korunka, Frank, Lueger, & Mugler, 2003). Specifically, the founders' tendencies to value "change, the new, and the different" (i.e., novelty) positively impact firm performance and more so for those firms that are younger and smaller (Ling, Zhao, & Baron, 2007).

### **Founding Teams and Starting Up a New Venture**

A *founding team* refers to a group of individuals who collectively create a venture. Founding teams have often varied experiences, are diverse in different attributes, sometimes have prior shared experience, and are influenced by structure.

First, **founding teams differ in the level and nature of their experiences, which impact the process of starting a new venture.** For example, for newly created venture capital firms, those that had top management teams with greater experience in venture capital, senior management, and consulting, were more successful than their inexperienced counterparts (Walske & Zacharakis, 2009). Moreover, in assessing top management teams of new ventures, senior venture capitalists emphasized, firstly, the team's industry experience, secondly, its level of management education, and, thirdly, the team's leadership experience (Franke, Gruber, Harhoff, & Henkel, 2006). Another study also confirmed that teams with greater entrepreneurial and management experience were able to identify a greater number of market opportunities (Gruber, MacMillan, & Thompson, 2012). It also appears that founding teams that have *financial*

*management* competence—skills, experience, and ability to overcome resource constraints—are better able to overcome obstacles to new venture creation and growth (Brinckmann, Salomo, & Gemuenden, 2011). Furthermore, new venture teams with greater *technological experience* magnify the positive relationships between, firstly, the diversity of their industry experience and, secondly, the number of external sources of knowledge tapped, with the variety of potential opportunities that they can identify (Gruber, MacMillan, & Thompson, 2013).

Second, **diversity is important in founding teams**. For example, team diversity in education background is beneficial (Gruber, MacMillan, & Thompson, 2012) and venture capitalists value educational heterogeneity, so long as one of the members has management education (Franke et al., 2006). Despite widespread knowledge of the importance of heterogeneity in the founding team (Bruton, Fried, & Hisrich, 1997; Kim & Aldrich, 2005; Leung, Foo, & Chaturvedi, 2013), it appears that founders' biased decision making—overoptimism and self-serving attributions—leads them to choose co-founders that have similar beliefs, values, and status, thus creating a homophilious founding team (Parker, 2009). However, we have some evidence that more diversity in the founding team might not always be a good thing. For example, dispersion of ability within the founding team has an inverted u-shaped relationship with startup performance (Hoogendoorn, Parker, & Van Praag, 2017). Also, while diversity enhances performance in a competitive commercialization context it does not appear to do so in a cooperative community environment, nor in the pursuit of an innovation strategy; in such contexts a technically focused management team performs better (Eesley, Hsu, & Roberts, 2014). Interestingly, new venture emergence is facilitated by new venture teams that involve a couple (i.e., a spouse) but obstructed by teams that contain biological linkages; this negative biological effect is less negative when financial investment is low (Brannon, Wiklund, & Haynie, 2013).

Finally, **founding team members that have prior shared experience are well positioned to manage some of the challenges of starting up a new venture.** New ventures managed by a team in which some of the members have previously worked together in the same company have a shared understanding that promotes implementation speed (Beckman, 2006) and overall performance, but less so when the shared experience is for a task or industry different from the new venture's tasks and industry and less so as the founding team gains its own shared operating experiences (Zheng, Devaughn, & Zellmer-Bruhn, 2016). Relatedly, Leung, Foo and Chaturvedi (2013) found that founding teams with shared prior experience were able to create a human resource value system for the new venture that was internally consistent, which enabled the building of shared collective perceptions, attitudes, and behaviors amongst the organizational members. Diverse founding teams in which members have also previously worked together are more likely to pursue an exploration strategy, change the venture's founding idea, and grow more quickly (Beckman, 2006).

A mechanism underlying the importance of the prior shared experience and the accumulated operating experiences shared by the founding team, is the development of a transactive memory system. A *transactive memory* system refers to the sum of the individual knowledge and shared understanding of where expertise among team members exists (Lewis, 2003; Moreland & Myaskovsky, 2000)—i.e., “who knows what” (Zheng, 2012). There is a positive relationship between the founding team's transactive memory system and new venture performance, which is magnified by *task similarity*—the perceptual closeness of tasks—and *intra-team trust*—the shared perception of trust amongst team members (Zheng, 2012). The founding team's transactive memory system can also spur an *entrepreneurial orientation*—the propensity for the new venture to be innovative, risk taking and proactive (Covin & Slevin, 1991)—and this positive relationship is magnified by the intra-trust of the founding team, the

organicity of the organizational structure, and the dynamism of the external environment (Dai, et al., 2016).

### **Social Relationships and Starting Up a New Venture**

*A social relationship refers to a positive inter-personal association—a tie between two or more people.* Social relationships are reflected in (1) the nature of a founder's social network, (2) the social capital embedded in the founder's network, (3) the intangible resources that founders can access via their network, and (4) the inter-personal interactions within the new venture.

First, **founders' relationships are represented by social networks and the nature of these social networks varies across founders and founding teams.** The network contacts of founders are perceived to be greater when the network contact offers greater *resource multiplicity*—"the simultaneous, prospective availability of multiple resources"—and the benefits of resource multiplicity are magnified by both age-based and gender-based interpersonal similarity between the founder and the resource provider (Grossman, Yli-Renko, & Janakiraman, 2012: 1765). Important people in a founders' network are the *referrer* (i.e., the person who connects an entrepreneur with a resource owner) and the ultimate *resource owner*. Specifically, founders' likelihood of acquiring resources are higher when (1) the tie between the referrer and the resource owner is strong, especially when the tie between the founder and referrer is also strong, and (2) the referrer and the resource owners have high prior knowledge of the venture's technology or product (Zhang, Soh, & Wong, 2010). Interestingly, the resource owners' poor prior knowledge compensates for weak ties between the founder and the referrer and between the referrer and the resource owner (Zhang et al., 2010).

Engel, Kaandorp and Elfring (2017) go one step further and conceptualize entrepreneurial networking not as a mere facilitator of entrepreneurial action but as a part of this action. Specifically, entrepreneurial networking is portrayed as an agentic behavior, under high

uncertainty, and includes assessment of the available means within the existing network of ties, negotiating pre-commitments with stakeholders, and constantly changing the portfolio of ties committed to the venture. Although it would seem that the larger the founders' network the better it is for the venture, there appear to be diminishing marginal returns to network size, in access to funding, information, and business contacts (Semrau & Werner, 2014). Over and above the size of the network, other important factors in relationship quality (i.e., stronger ties), are trust and commitment; both of which facilitate access to resources under favorable terms (McFadyen & Cannella, 2004; Semrau & Werner, 2014; Steier & Greenwood, 2000). Indeed, both the social network size and the relational capital (strength of the ties) were found to be positively related to progress in the new venture creation process (De Carolis, Litzky, & Eddleston, 2009). Importantly, new ventures also benefit from founder networks that are heterogeneous and high in status (Zheng, Liu, & George, 2010). A heterogeneous network provides access to more diverse information and resources, and a high-status network is an important social cue signaling the quality of the venture.

**Second, founders can benefit from social capital (i.e., the goodwill created through social relations [De Carolis et al. 2009]) and this social capital can have a variety of sources and benefits.** For example, founders experienced with global markets (as a returning migrant or via experience with a multi-national enterprise) typically have a higher stock of initial social capital than founders without global-market experiences (Prashantham & Dhanaraj, 2010). It appears that an important source of social capital is the family. Founders seek initial funding from their family rather than from other investors when they anticipate low levels of family interference in the business (Au & Kwan, 2009). This shows that there are benefits (e.g., easier access to capital) and costs (e.g., potential interference) that arise from relying on family relationships in creating the new venture. Another study also captured the apparent tradeoffs that



founders face with regards to involving their family in starting up a business. Edelman and colleagues (2016) found that the scope of startup activities was narrower with the involvement of family financial-capital but broader with higher family social-capital. Interestingly, the benefits of family social capital (for the scope of startup activities) were magnified by family cohesiveness. Family involvement in the governance of early stage new ventures has also been associated with higher probability of raising debt funding and with the amount of funding obtained (Edelman et al., 2016).

Third, **founders' social relationships can provide intangible resources**. For example, close ties can provide entrepreneurial *inspiration* for the founder (Souitaris, Zerbini & Al-Laham, 2007), which can enhance the chances of new venture survival, especially when founders take over an existing business, spend considerable time on their business, and lack prior entrepreneurship experience (De Jong & Marsili, 2015). Another intangible resource stemming from social relationships is *guidance*. Guided preparation—i.e., using assistance from an outside advisor to startup the venture—has an inverted u-shaped relationship to new ventures' long term growth (Chrisman, McMullan, & Hall, 2005). That is, long-term growth increases with the amount of guided preparation to a point and thereafter more guided preparation is associated with less long-term growth. A similar form of help to guidance, also derived by social relationships, is help from *venture advocates*. Venture advocates are “local venture-community members, as potential stakeholders, that help founders in the developmental stages of emerging enterprises” and have been found to be positively associated with a new venture's likelihood of launch and survival (Saxton, Wesley, & Saxton, 2016).

Finally, **social relationships occur within the structure of the new venture**, e.g., among directors. New ventures are able to establish more quickly a diverse alliance portfolio when their board of directors is heterogeneous (i.e., directors have diverse backgrounds and

networks), multiplex (i.e., directors form multiple types of relationships), and symmetrical (influence is evenly distributed) (Beckman et al., 2014). However, these benefits of the board members' social relationships are undermined when central investors come to dominate the board (Beckman et al., 2014). What seems to be important is that members of the board of directors provide network relationships for the founding team. This enhanced network (of the board and founding team) is a source of *relational pluralism*—the extent to which a firm derives its meaning and possibility of action from other entities (Gulati, et al., 2010).

### **Cognitions and Starting up a New Venture**

*Founders' cognitions* refers to the mental operations underlying the co-construction of potential opportunities for starting up a new venture. We review our understanding on founders' cognitions in terms of being driven by enduring characteristics, and by perception and judgment of information, and in terms of leading to biased decision making, the identification of potential opportunities, and from entrepreneurial intention to action.

First, **founders' cognitions can be driven by relatively enduring characteristics—intelligence and cognitive style.** Baum and Bird (2010) proposed that there is a form of intelligence that is critical for success in new venture creation, which they call *successful intelligence*. Successful intelligence (when combined with entrepreneurial self-efficacy) is proposed to lead to swift actions that promote improved performance. This intelligence for new venture creation consists of three different types of intelligence: (1) practical intelligence, which is “the experience-based accumulation of skills, dispositions, tact knowledge, and the ability to apply some to solve everyday problems,” (2) analytical intelligence, which is the “ability to learn, remember, and retrieve information quickly,” and (3) creative intelligence which is the “ability to generate high quality novel ideas that meet the needs of a task or context” (Baum & Bird, 2010: 399–400).

Another enduring attribute of founders that influences their cognitions is *cognitive style*. Cognitive style is a “higher-order heuristic that individuals employ when they approach, frame and solve problems” (Brigham, De Castro, & Shepherd, 2007: 31). People with different cognitive styles were confident for different tasks within the entrepreneurial process. Those who have a more intuitive cognitive style are more likely to observe signals and process information in a synthetic and holistic way (Olson, 1985); hence, they reported greater confidence in the new venture creation tasks of identifying and recognizing opportunities (Kickul et al., 2009). In contrast, individuals with an analytical cognitive style processes information in a more linear and sequential way (Allinson & Hayes, 1996) and reported greater confidence in undertaking the venture creation tasks of assessing, evaluating, planning, and marshaling resources (Kickul et al., 2009).

Second, **entrepreneurial cognitions are informed by founders’ perception and judgement of information**. Perception and judgement are related in terms of the founder’s cognitive model. Indeed, a founder’s judgement is based on the “shape and strength of the entrepreneur’s causal map” (i.e., perceptions) about achieving success in venture creation (Uygur & Kim, 2016: 186). Uygur and Kim (2016) propose that engaging in formal business planning facilitates entrepreneurial judgement because it helps founders to (1) become more selective in their decision making—refine the causal map to a smaller set of new venture success factors; (2) become more decisive—make venturing decisions more quickly; and (3) have greater conviction—faith in their entrepreneurial judgement.

Third, **founders’ cognitions can lead to biased decision making**. Indeed, founders exhibit greater overconfidence than new venture managers who did not found the business (Forbes, 2005). *Overconfidence* refers to an individual’s over-statement of the correctness of their responses to difficult questions—they “do not know what they don’t know” (Forbes, 2005:

624), which can be detrimental to venture creation efforts (Hayward, Shepherd, & Griffin, 2006). Indeed, Hyytinen, Lattonen and Rajarinen (2014) found that founders were overly optimistic when forecasting the survival of their venture. However, confidence in one's capabilities to successfully perform entrepreneurial tasks is a robust predictor of the startup of a new venture (Townsend, Busenitz, & Arthurs, 2010).

Founders can also *escalate commitment* (money and time) to a venture that is bound to fail, which is obviously a biased decision. Huang, Souitaris, and Barsade (forthcoming) found that hope drives escalation of the founding team's commitment to a failing venture, whereas fear leads to quitting that venture. Interestingly, when hope and fear were felt together, hope 'trumped' fear, and the founding team kept escalating commitment.

Fourth, **a key application of entrepreneurial cognition is the identification of potential opportunities.** Indeed, Edelman and Yli-Renko (2010) found that entrepreneurs' subjective perception of opportunity mediates the relationship between the objective characteristics of the environment (i.e., environmental munificence) and the individual's effort to start a new venture. These cognitive perceptions of a potential opportunity have a number of characteristics from a structuration perspective (i.e., the entrepreneur, the social system, and the potential opportunity co-evolve and co-construct [Seyb, Shepherd, and Williams, 2019]): (1) entrepreneurial opportunities emerge through the interaction of the entrepreneur and a community of inquiry (Shepherd, 2015); (2) opportunity objectification, which refers to "the attribution of objective reality to an opportunity idea, so that the idea begins to be seen as an entity outside the observers mind" (Wood & McKinley, 2010: 70); (3) opportunity enactment as the establishment of the new venture is often characterized as the delivery of the first product or service, and (4) opportunity abandonment that involves the founder deciding not to pursue any further the particular potential opportunity and re-directing his or her attention elsewhere.

The above structuration approach to the cognition related to potential opportunity relies on the inputs of others (Alvarez et al., 2015; Seyb et al., 2019). Who those others are also seems to matter in the cognitive process. For example, if a founder perceives that they are socially isolated from important actors such as other entrepreneurs, (a concept called social distance), then the interactions over a potential opportunity are perceived more abstractly, and thus, venture creation is perceived to be less likely to occur (vis-a-vis lower social distance and more concrete perceptions of the potential opportunity and new venture emergence) (Chen et al., 2018). Of course, the founder not only perceives opportunities but also threats during the startup process. A threat can cause stress and cognitive response through efforts to cope—avoidance coping and active coping. *Avoidance coping* involves taking respite from the threat by temporarily withdrawing from the situation or otherwise focusing on something else (Carver, Scheier, & Weintraub, 1989). *Active coping* involves directly addressing the threatening situation head on by doing something to resolve the problem. Avoidance coping on its own and in conjunction with active coping, can facilitate the entrepreneur's psychological well-being (Uy, Foo, & Song, 2013).

Finally, **founders' cognitions lead to intentions for actions critical to the process of starting up a new venture.** In this case, the actions are the startup activities for organizational emergence. The extent of the time, effort, and other resources an individual invests in startup activities depends on the individual's *intention*—readiness to perform a given behavior (Ajzen, 1991), which in turn depends on the founders' attitudes towards that behavior—the favorability of taking action, the perceived behavioral control (i.e., the ease or difficulty in performing the action), and the subjective norms (i.e., the opinions of a social reference group about engagement in the focal actions) (Kautonen, van Gelderen, & Fink, 2015; Souitaris, Zerbinati & Al-Laham, 2007). In this way an *entrepreneurial intention* involves a cognitive commitment towards actions

to create a venture and these intentions can be stimulated by inputs from and perceptions of the environment. For example, attending an entrepreneurship program (an input from the environment) raises the intentions of science and engineering students to start a business (Souitaris, Zerbinati & Al-Laham, 2007). And founders' perceived market heterogeneity strengthens their entrepreneurial intention because the diversity and breadth of the market provides potential opportunities for those who are innovative, proactive, and willing to take risks to create value (Fini et al., 2012). The motivation to startup a new venture and the startup decision-making expertise reinforce each other to promote the entrepreneur's perception that they will achieve new venture success (Mitchell, Mitchell, & Smith, 2008). However, a prosocial motivation—the desire to expend effort and other resources to help another person (Batson, 1987; Grant, 2008), appears to slow down venture emergence in terms of assembling key resources, achieving first sale, raising external funding, and so on (Renko & Freeman, 2017).

## **ORGANIZING THE STARTUP OF A NEW VENTURE**

### **Emergent Organizing and Starting Up a New venture**

*Emergent organizing* refers to the development of processes for configuring connections and activities to enhance the reliability and effectiveness of operations. Emergent organizing involves improvisation and engagement in activities critical to starting up a new venture, different (and dynamic) modes of organizing, and is influenced by founders' decision-making logic.

First, **founders engage in actions to create new ventures, such as improvisation, and key activities for the startup process.** The initial inspiration for the new venture may come from improvisation. *Improvisation* involves the fusion of design (e.g., planning) and action (i.e., emergent behaviors [Cunha, Kamoche, & Cunha, 2003; Weick, 1998]) or, stated differently, “the deliberate extemporaneous composition and execution of novel action” (Hmieleski & Corbett,

2008: 484). It seems that founders' improvisational behaviors facilitate new venture performance (i.e., sales growth) for those founders with high entrepreneurial self-efficacy but diminish new venture performance for those founders with low entrepreneurial self-efficacy (Hmieleski & Corbett, 2008). Regarding specific key-activities in the new venture creation process, Mueller, Volery and Siemens (2012) found that founders at startup focused mostly on exchanging information and opinions (36% of work time) and on engaging in more analytical and conceptual work (26% of work time). These efforts in startup focused on four key business functions: (1) human relations, (2) marketing (including sales and public relations, (3) administration, and (4) environmental monitoring (Mueller et al., 2012).

Second, **different modes of organizing feed into each other, but organizational emergence is not linear or sequential** (Brush, Manolova, & Edelman, 2008; Lichtenstein, Carter, Dooley, & Gartner, 2007). Lichtenstein, Dooley, and Lumpkin (2006) identified three general modes of organizing, namely vision (i.e., identifying the opportunity), strategic organizing (i.e., making major decisions) and tactical organizing (i.e., behaviors). The three modes of organizing are closely interrelated. Interestingly, an emergence event is stimulated by a change in tactical organizing first, which stimulates strategic organizing, which in turn stimulates a change of vision (Lichtenstein et al., 2006).

Finally, **organizational emergence can be influenced by the founders' logic**—causation and effectuation. Effectuation is based on four primary principles: (1) The *affordable loss principle* that proposes that rather than relying on the expected return of actions (consistent with causation), entrepreneurs can focus on opportunity pursuit vis-à-vis how much they can afford to lose by taking this action. (2) The *alliance principle* proposes that rather than conducting competitor analyses (consistent with causation), the founder can enter into strategic alliances to gain pre-commitments from (potential) stakeholders. (3) The *contingency principle*

proposes that rather than relying on pre-existing knowledge (consistent with causation), the founder can remain open to and exploit as an opportunity, unexpected events. (4) The *control principle* that proposes that rather than trying to predict an uncertain environment, the founder takes stock of his or her means and seeks to create possible ends from known means (Sarasvathy, 2001). These effectuation principles can provide a response to environmental uncertainty, that is, while there is uncertainty about the external environment, there is perceived certainty internally about the new venture's ability to respond to external changes (Jiang & Rüling, 2019). It appears that founders are more likely to use a causal logic when their previous career emphasized planning (i.e., an implicit assumption that the external environment is predictable) and more likely to be effectual when the founder came from a career that involved investing (Engel et al., 2017). Moreover, experts are more likely to use effectuation in an entrepreneurial context while novices are more likely to use causation (Dew et al., 2009).

Importantly, founders can engage both a causal and an effectual logic. Changes in the decision-making logic appear to be driven by the founders' *scoping* decisions (how broad is the search for a potential opportunity to pursue [Klingebiel & Adner, 2015]), triggered by changes in the external and/or internal environment of the new venture (Reymen et al., 2015). By narrowing the scope of opportunity search founders were more willing to engage in causation and achieve efficiencies whereas an increase in the scope meant that founders were more likely to use effectuation and thus be more creative and experimental (Reymen et al., 2015).

Furthermore, effectuation involves gaining the pre-commitment of potential stakeholders (Sarasvathy, 2001), who provide the effectual founder resources and legitimacy for their new ventures (Akemu, Whiteman, & Kennedy, 2016). Pre-commitment of stakeholders is assisted by *boundary objects*, which are material artefacts representing the beliefs and values of the founder (e.g., an engineering drawing or a project timeline), "agreed and shared between communities of



practice” (Akemu et al., 2016: 872). Boundary objects serve to connect loosely coupled actors across multiple domains to advance the new venture (see Nicolini, Mengis, & Swan, 2012; Yakura, 2002). Therefore, the founders’ discursive and symbolic practices to share, frame, and interact over boundary objects is critical for the emergence of new ventures (Seyb et al., 2019).

### **New Venture Strategy and Starting Up a New Venture**

*New venture strategy* refers to the formulation, choice, and/or enactment of a particular strategic set-up and direction, with the venture’s business model being a key element. The business model refers to a description of the future venture and how it will function to achieve its goals (for more discussion on business models see Massa, Tucci, & Afuah, 2017). New venture strategy involves planning, diversification, resource orchestration, entry mode, and innovativeness.

First, **planning impacts the starting up of new ventures** (Dencker, Gruber, & Shah, 2009). Specifically, completing a formal plan increases the likelihood of new venture viability (early-stage profitability) (Greene & Hopp, 2017) and enhances performance in terms of employment growth (Burke, Fraser, & Greene, 2010) and survival (when the plan is formed before speaking to customers or engaging in other organizing activities [Shane & Delmar, 2004]). It appears that the founders most likely to plan are those who are better educated and oriented toward growth, innovation, and external finance (Brinckmann & Kim, 2015). The type of environment the founders find themselves also impacts the benefits of different types of planning. In highly dynamic environments, founders gain most value from planning that is selective and quick, whereas in less dynamic environments, founders appear to be better off taking their time to spend longer on the planning task (Gruber, 2007).

Founders also engage in plans that are not formal in nature. For example, entrepreneurial goal intentions (i.e., what the founder wants to achieve and is willing to invest to achieve) and

venture creation is magnified by the founders use of action plans (Gielnik et al., 2014). Action plans are mental simulations of the steps one needs to take to achieve a goal (Frese, 2009). These action plans also dampen the negative impact of positive fantasies (i.e., imagined futures independent of previous experiences) on venture creation; it appears action plans compensate for the motivational drain of positive fantasies (Gielnik et al., 2014).

**Second, diversification strategies can affect new venture survival and efficiency.**

Non-profit new ventures with a broad scope of products/services within and across industries (Tanriverdi & Lee, 2008) had increased chance of survival, vis-à-vis those with a narrow scope, but at the cost of organizational efficiency (Mendoza-Abarca & Gras, 2019). This positive relationship between product diversification and new venture survival is enhanced for ventures with high revenue diversification, that is, a broad scope of revenue sources for these non-profit ventures, such as government grants, private donations, and goods sold (Mendoza-Abarca & Gras, 2019).

**Third, resource orchestration, through investment in human capital, leveraging R&D, and capitalizing on founders' startup experience, can affect new venture growth and profits.** Somehow counterintuitively, in a study of R&D active startups, Symeonidou and Nicolaou (2018) found that deviating from rival's resource investments (either below but even above the industry mean) reduces startup performance, in terms of growth and profits. However, high investment in human capital vis-a-vis rivals is less negatively related with performance for those new ventures that pursue a leveraging strategy focused on the innovation of new products and services and even less negative when founders have high startup experience (Symeonidou & Nicolaou, 2018).

**Fourth, current founders can pursue new opportunities via one of two entry modes—within their existing venture (e.g. new product development or acquisition) or by starting-**

**up a new venture**; both represent entrepreneurial action but only the later leads to the startup of a new independent venture, which is the focus of the current review. Wiklund and Shepherd (2008) found that *habitual founders*—founders with prior startup experience—were more likely to pursue new opportunities through the creation of a new independent venture than *novice founders*—founders with no prior startup experience—who were more likely to pursue a potential opportunity within their existing venture. *Portfolio entrepreneurs*—founders who pursued more opportunities concurrently—were more educated, had more links with government support agencies, more frequently used their business networks, and had prior start up experience (i.e., habitual founders) (Wiklund & Shepherd, 2008). In a similar way, Zander (2007) theorized about the boundaries of the firm (i.e. why firms exist?) and suggested that actors create a new firm as opposed to an arm's length market-contract, when other market participants are unable to understand or accept their perceived 'means end framework' (a coherent scenario of the unfolding of future market events). Block and colleagues (2013) noted that founders can also decide to enter a new market by acquiring an existing firm as opposed to starting up a new venture; startup of an independent firm was more likely for those founders who were more educated, younger, had greater risk-taking propensity, and were more inventive (Block, et. al., 2013).

Finally, **a new venture's strategy can promote innovativeness, which can impact new venture performance**, although the nature of the relationship is not as obvious as it might seem. That is, on the one hand, we would expect innovation to provide the new-venture benefits in terms of market power, cost efficiency, and capabilities such as absorptive capacity but on the other hand, innovativeness raises the liabilities of newness (Shepherd, Douglas, & Shanley, 2000) which increases the likelihood of failure. Indeed, in a study of Finnish startups, Hyytinen,

Pajarinen and Rouvinen (2015) found that innovativeness reduced the survival chances of new ventures and that this negative relationship is amplified by the entrepreneurs' preference for risk.

Furthermore, new ventures can be innovative by tapping into external knowledge. Indeed, open innovation is about “harnessing knowledge flows across firm boundaries” (Greul, West, & Bock, 2018: 392). To benefit from open innovation, new ventures can use inbound and outbound knowledge flows to build its capabilities (Chesbrough, 2003; Lee et al., 2010) mindful that there are risks associated with such an organizational openness (Dahlander & Gann, 2010; Enkel, Gassmann, & Chesbrough, 2009). To balance the pros and cons of open innovation, Greul, West, and Bock (2018) proposed that new ventures will have less inbound knowledge flows and less unmonetized outbound knowledge flows when they have more technical capabilities and more proprietary intellectual property. Interestingly, *user entrepreneurs*—entrepreneurs that have “personal experience within product or service and derive benefit through use” (Shah & Tripsas, 2007: 124)—are more likely than traditional entrepreneurs of allowing unmonetized outbound knowledge flows (Greul et al., 2018). Moreover, *accidental entrepreneurs*—entrepreneurs who “happen upon an idea through their own use” (Shah & Tripsas, 2007: 126) are more likely to allow unmonetized outbound knowledge flows than purposeful entrepreneurs (Greul et al., 2018).

## **PERFORMING THE START UP OF A NEW VENTURE**

### **Organizational Emergence**

*Organizational emergence* refers to progress in the creation of a new venture. In theoretical terms, this new venture represents a new unit of analysis that produces outcomes beyond the actions of the individuals involved in the venture. Organizational emergence involves the linking of startup activities and is dynamic in nature.

First, **the engagement in and linking of startup activities provide a basis for organizational emergence.** An organization emerges along four properties: (1) *Intentionality*, which refers to founders purposefully investing effort to create the new venture, (2) *Resources*, which form the building blocks of an organization, (3) *Boundary*, which delineates the formalized space of the organization, and (4) *Exchange*, which involves movement of inputs and outputs (e.g., resources) across the emerging organizational boundary (Brush et al., 2008; Katz & Gartner, 1988). By engaging in activities that establish the properties detailed above, founders are able to establish unique capabilities and stakeholder support to overcome the venture's liabilities of newness (Delmar & Shane, 2004; Suchman, 1995). Counterintuitively, Brush and colleagues (2008) found that those founders who were able to quickly move through the new venture creation activities were less likely to continue organizing—i.e., they were more likely to terminate the pursuit of the new venture's opportunity.

Second, **organizational emergence is a dynamic process.** Changes throughout organizational emergence are driven by an *adaptive tension* between a perceived opportunity or a personal aspiration to start a business and the current state of the system (Lichtenstein et al., 2007). It appears that the number of new venture creation activities over time is positively associated with new venture creation (Lichtenstein et al., 2007). However, and in what seems consistent with the surprising findings of Brush and colleagues (2008) reported above, the later these activities occur the more likely a new venture will be created. The startup process can become self-sustaining—enacting one activity offers the inputs for another activity. This self-organization provides a momentum for new venture creation (Lichtenstein, 2000).

### **New Venture Legitimacy**

*New venture legitimacy* refers to audiences' assessment of the startup and its actions as desirable, acceptable, and appropriate. We investigate new venture legitimacy in terms of

seeking endorsement, the role of founders in promoting legitimacy, how legitimacy can impact access to human and financial capital, and how new venture legitimacy occurs over time.

First, **new ventures often seek some form of endorsement to increase their legitimacy**. There is usually considerable audience uncertainty about a new venture and its market offerings. To reduce this uncertainty and to gain legitimacy new ventures can signal information about quality and credibility through their actions and projected founder-experience, which are magnified by third-party endorsements (Courtney, Dutta, & Li, 2016) and third-party affiliations (Plummer, Allison, & Connelly, 2016). For example, positive signals, such as managerial experience of the founder, having at least one product in the market, and operating from a commercial property, become more impactful for raising external funding, when they are backed by an affiliation with an incubator (Plummer et al., 2016). In a similar manner, Fisher, and colleagues (2017: 68) proposed three primary mechanisms via which new ventures can establish legitimacy: (1) *identity mechanisms* that “account for how a venture is portrayed”, (2) *associative mechanisms* that “reflect which organizations and individuals a new venture is tied with”, and (3) *organizational mechanisms* that “account for the attributes of the organization leaders and exposed organizational achievements”. Interestingly, third party endorsement can come in the form of *certification*—“a process in which a central institutional actor with authority or status formally acknowledges that a venture meets a particular standard”; certification can facilitate the transition from planned to operational venture, especially for those new ventures in low legitimacy sectors (Sine, David, & Mitsuhashi, 2007: 578).

Second, as implied above, **the founders can influence the legitimacy of their new ventures**. For example, in a historical study of the magazine industry, Haveman, Habinek and Goodman (2012) concluded that skeptics to an emerging industry were not necessarily persuaded by the products’ legitimacy, but by the stature of the founders who created such products. As the

industry evolved and gained general legitimacy, opportunities opened up for socially-peripheral founders to create ventures. Founders are generally portrayed as ‘legitimacy-seekers’ for their new ventures (O’Neil & Ucbasaran, 2016)—they seek legitimacy by (1) establishing, based on their values and beliefs, “what matters to me”, (2) focusing attention on their audiences by establishing “what matters to them” and finally, (3) finding a balance between the two—“what matters to me and them”. Therefore, it appears important that founders engage in reflection to adjust their legitimacy work to their audiences but “without the entrepreneur feeling overly compromised” (O’Neil & Ucbasaran, 2016: 134).

In addition, a new venture is judged more favorably when it portrays a *legitimately distinctive* identity (Navis & Glynn, 2011), which involves ‘legitimizing claims’ aligning the venture with institutionalized conventions and also ‘distinctiveness claims’ that distance it from such institutionalized conventions in meaningful ways. The balance appears to depend on the environment. For example, for new market categories, the founders’ emphasis is likely on distinctiveness from established market categories (Navis & Glynn, 2011). To obtain legitimacy, founders have to highlight their credentials—education, experience, family background, and status—which represent signals to external audiences that they are in line with norms and stakeholders expectations (Nagy et al., 2012). The founders can also engage in impression management to highlight certain aspects and disguise others with the purpose of influencing audiences’ perceptions (Barsness, Diekmann, & Seidel, 2005). However, some of the founders’ efforts to establish legitimacy may step over an ethical line by, for example, telling legitimacy lies, i.e., intentionally misrepresenting the facts in a “manner intended to deceive” (Rutherford, Buller, & Stebbins, 2009: 954).

**Third, legitimacy can impact access to human capital, which is of critical importance to new ventures.** Consistent with Navis and Glynn (2011) above, to attract potential employees,

new ventures need to balance distinctive employment-claims (e.g., a supportive work environment) with founder and new-venture legitimacy claims (Moser, Tumasjan, & Welp, 2017). In a study of job seekers, Moser and colleagues (2017) found that, in comparison, distinctiveness claims were more important for potential employees than legitimacy claims. More specifically, highly innovative employees were mostly attracted by the new venture's distinct *ideology*—“commitment to a valued cause”—and founders' legitimacy, i.e., founders educated at a prestigious university and with professional experience at a renowned firm.

Finally, **establishing new venture legitimacy involves a process over time**. For example, Tracey, Dalpiaz, and Phillips (2018) explored the legitimation process of ‘translated’ ventures, which try to loosely emulate a business model in one geography (e.g., business incubators in Silicon Valley) and launch the venture in another geography (e.g., Italy). This study found three phases in the legitimation process, as follows: (1) *improvising phase* when founders try to explain the venture to local level stakeholders (i.e., in Italy); (2) *converging phase* in which the founders attempt to explain the venture to categorical level stakeholders (i.e., incubators in Silicon Valley) in an effort to secure access to resources from them, and an (3) *optimizing phase* that involves using local characteristics to achieve distinctiveness at an international category-level and also using international category-level authentication to achieve distinctiveness at the local level (Tracey et al., 2018: 1638).

There also appears to be a dynamic process between the reputation and status of a new venture, as these two attributes are mutually dependent. *Reputation* is an economic concept that refers to the “perceived of actual quality or merit that generate earned, performance-based rewards” (Washington & Zajac, 2005: 283) and *status* is a sociological concept that refers to social rank reflecting privilege or discrimination (Pollock et al., 2015). Pollock and colleagues found that (1) reputation's positive relationship with status is magnified for older firms, (2) big



hits (such as a blockbuster IPO for venture capital firms) increases status for young firms and enhances reputation for older firms, and (3) prior status influences current status but less so as the firms age. For new ventures, the reputation of their first partner had an immediate and ongoing impact of the firm's status (Milanov & Shepherd, 2013). Part of the process of establishing legitimacy for the new venture is enrolling stakeholders in the new venture's endeavor. Stakeholder enrollment refers to the process of "creating deep psychological bonds between stakeholders and entrepreneurial endeavors" (Burns et al., 2016: 97). When the new venture is shrouded in uncertainty, efforts at stakeholder enrollment need to focus on the founder and the founding team not the nature of the potential opportunity (see Haveman et al., 2012).

### **Founder Exit**

*Founder exit* refers to an individual who was involved in the creation of a venture leaving his or her role as owner and/or manager with that venture. There are numerous exit strategies (Bruce & Picard, 2006; Ryan & Power, 2012) and modes of exit (DeTienne, McKelvie, & Chandler, 2015; Wennberg et al., 2010) available to founders. We investigate founder exit in terms of the different antecedents of involuntary exit and the reasons for voluntary exit.

First, **there is heterogeneity in the likelihood of founder exit**. For example, founder exit is more likely for ventures that are older and larger (Boeker & Karichalil, 2002; Dobrev & Barnett, 2005) because the venture needs shift from tasks requiring entrepreneurial skills to tasks requiring management skills (Boeker & Wiltbank, 2005; Wasserman, 2003). Given this change in the nature of the required tasks, the venture benefits from replacing the founder with a professional manager (Ewens & Marx, 2017; Wasserman, 2017), who can provide a different skill set (Stevenson & Jarillo, 1990). The implication is that the founders' exit is forced upon them by the investors. Founders are more likely to withstand this pressure and remain with their firms if they have experienced success at their previous firm, have prior affiliations with the

other members of the founding team and have prior start up experience; environmental uncertainty magnifies these positive relationships (Boeker & Fleming, 2010).

Counterintuitively, Wasserman (2008) offers a founders' dilemma in which the more successful the founder is as CEO growing the firm, the more likely he or she is to be replaced. It appears that success in the form of growth increases the likelihood that the new firm will require external funding (and more of it) and that these investors, with greater control of the company, will replace the founder with a professional manager. Generally, it seems that founder-CEOs are more likely to be replaced if the firm is performing among the worst in the industry or amongst the best in the industry; founder replacement is driven by a mismatch between the quality of the business and the ability of the founder (Chen & Thompson, 2015). Interestingly, while those firms that replaced the founder CEO were more likely to fail, those that survived grew at a faster rate (Chen & Thompson, 2015) and had a more positive investor reaction at IPO (Nelson, 2003) than those firms who kept the founder CEO. Indeed, recent empirical research indicates that venture performance typically increases when investors replace founders with professional managers (Ewens & Marx, 2017; Wasserman, 2017).

Second, **founders may choose to exit the venture voluntarily, for a number of reasons.** For example, a founder may exit their venture to avoid further losses (despite a reluctance to do so; DeTienne, Shepherd, & De Castro, 2008; Huang, Souitaris and Barsade, forthcoming; Gimeno et al., 1997). In a recent study, Souitaris and colleagues (2019) found that founders voluntarily exited their ventures, in full or in part (exited management or ownership), when they became frustrated by a loss in power over the direction of the venture. Managers may also voluntarily exit their ventures as a positive harvest strategy (DeTienne & Cardon, 2012).

## **EXTERNAL ENVIRONMENT AND STARTING UP A NEW VENTURE**

*A startup's external environment* refers to the context beyond founders and their emergent ventures. We investigate the external environment in terms of its imprinting effect, the types of external environments that impact the startup process, and the government as an external environmental actor.

First, **the external environment can imprint on new ventures**. Imprinting explains how individuals and organizations develop characteristics during a sensitive period (usually at the time of creation) that persist despite the passing of time and environmental changes (Marquis & Tilcsik, 2013). Mathias and colleagues (2015) found that founders can be (1) imprinted by their family and friends, in which case they are more likely to pursue multiple unrelated ventures; (2) imprinted by their hobby, in which case they focus on user communities to inform their decision making and are less motivated by pecuniary returns; and (3) imprinted by prior work experience, in which case they focus on known knowledge fields, and emphasize growing their ventures. Moreover, the initial mode of ideation appears to have a persistent impact. Specifically, founders who initially engage in *organizational knowledge brokering*—"the ability to effectively apply knowledge from one technical domain to innovate in another"—bring a positive impact on search patterns over time, which leads to superior performance vis-à-vis non-brokers (Hsu & Lim, 2013: 1134). It also appears that environmental imprinting is related to the masculinity or femininity of the industry in which the new venture is created; Micelotta, Washington and Docekalova (2018) found that new ventures created based on identity claims associated with being female in a male dominated industry experienced the *liability of differentiation*—the disadvantage of offering a feminine unique selling point to differentiate from competitors in a masculine industry.

Second, **the nature of the external environment can directly impact the creation and performance of new ventures**. By investigating new ventures across different environments,

Katila and Shane (2005) found that new ventures are more innovative in markets which are more competitive, attract more financial resources, are less manufacturing-intensive, and are smaller. In addition, new digital technologies can impact the creation of new ventures. Specifically, von Briel, Davidsson, and Recker (2018) proposed six enabling mechanisms, attributed to digital technologies, that affect the new venture creation process (for example, *compression mechanisms* accelerate the time required to perform an action and *conservation mechanisms* reduce the required resources to perform an action). Differences in the external environment can also occur across countries. For example, De Clercq, Lim, and Oh (2013) found that the positive relationship between the founders' resources and the likelihood of starting a new venture is more positive in countries where the financial system is more entrepreneurially oriented, the educational system is more developed, the level of trust is higher, and the culture is less hierarchal (i.e., little desire among country members to preserve existing power structures [Schwartz, 1999]) and less communal (i.e., country members view themselves as autonomous [Schwartz, 1999]).

Finally, **government can influence the external environment of new ventures.** Specifically, government policies can facilitate or obstruct new venture creation and performance. One study in Israel found that government subsidies for research and development were associated with the attraction of external investment, innovation, and new firm survival (Conti, 2018). Another form of subsidy is guided preparation for entrepreneurial activity, i.e., the providing of "advice, education, and awareness" provided to new ventures (Rotger, Gørtz, & Storey, 2012). In an investigation of a guided preparation program for nascent and new founders in Denmark, Rotger and colleagues (2012) found that the program had a positive impact on the size of the new ventures and their survival, but not necessarily their growth. As indicated above, governments can be a source of resources for new ventures. To access these resources, founders

can offer bribes, which constitutes an illegal activity. In a study of nascent entrepreneurs in China, Baron and colleagues (2018) found that entrepreneurs were more likely to offer bribes to government decision makers when the local economic conditions were declining, and even more so for entrepreneurs who had an *underdog identity*—i.e., difficult to change personal characteristics that are perceived by members of society as low in social status.

## **AGENDA FOR FUTURE RESEARCH**

There are ample opportunities for future research to contribute to the entrepreneurship literature on startups and new ventures, prior to scaling. Although we could offer future research within each of the categories (i.e., boxes and circles of Figure 1), we prefer to focus on the arrows for a number of reasons. First, the papers reviewed within a category each offer a future research section that are useful in describing future extensions of the current models. Second, the arrows represent the connections between constructs and therefore offer both a broader basis for speculating on research opportunities, the opportunity to combine and re-combine these conceptual chunks to develop new theorizing (i.e., theory bricolage [Boxenbaum & Rouleau, 2011]), and a focus on the mechanisms connecting them which is critical to strong theorizing (Anderson, Drakopoulou Dodd, & Jack, 2012). Third, a focus on the arrows forces us to think about causality, reverse causality, mutual dependence, and the possibilities of virtuous or vicious spirals. Finally, a focus on the arrows also provides a basis for calling for more process-based research in the startup venturing process.

**Founder and founding team.** Although there has been considerable scholarly attention on the solo founder, and to a lesser extent the founding team, there is a need for research that connects the two. First, in a group of founders why and how is one chosen to be the lead founder? Of course, even this question has implicit assumptions that need to be explored. For example, perhaps a lead founder is not chosen but emerges from the team formation and

activities involved in startup. It would be interesting to have a deeper understanding of the process of choosing a lead founder and/or how he or she emerges over time. Furthermore, in what way does the lead founder lead? And non-lead founders follow? At this early stage of team formation, in a highly uncertain environment, current theories of leadership and leader-member exchange are unlikely to directly apply, requiring theory extension or new theories.

**Founder, team, and social network.** Although we are beginning to understand how a team's knowledge is developed, we are less clear on the aggregation process by which each individual member's social network and capital are combined to influence enrolling stakeholders and engaging a community of inquiry. Again, we have a rich understanding of an organization's network and the benefits (and constraints) of that network. It seems that we are only starting to gain an understanding of how networks are formed in the first place and how that formation facilitates and is facilitated by the processes by which the founding team is formed (including the leadership of the lead founder), the identification of a potential opportunity, the formation of a community of inquiry, the enrollment of stakeholders, and progress in organizational emergence. Indeed, the field has made some important steps along this path largely by exploring the creation of new venture capital firms (references here maybe). Although new venture capital firms are new ventures, extending this stream of research to other contexts will be important to determine whether important aspects are different and consequential, such as the nature of the potential opportunity, the formation and maintenance of a community of inquiry, the dynamic within the founding team, and aspects of the environment such as the nature of uncertainty (for example, it is likely that a non-venture capital new firm may find it more difficult to establish a portfolio as a means of managing uncertainty than a new venture capital firm).

**Founder cognitions and community of inquiry.** We are also taking some important steps in building on our understanding of potential opportunity, as a result of entrepreneurial

cognition research, to acknowledge the importance of a community of inquiry. However, we believe that current research has only scratched the surface of this important research topic. For example, it is important to understand how the cognitions and actions of different sub-communities within the community of inquiry directly influence a founding team's collective cognitions and actions and do so indirectly through their interaction with the potential opportunity. Thinking of the potential opportunity as a boundary object, such as a prototype (perhaps a minimum viable product), how does the interactions proceed between (1) the community of inquiry, prototype, and founder and vice versa, (2) between one sub-community, the prototype, and another sub-community of inquiry, and (3) the lead founder, the prototype, and the rest of the founding team. Perhaps because the notion of opportunity has been rather amorphous, there has been little research on these relationships. However, as we focus more on potential opportunities, and their different manifestations, we are at the dawn of a new era of entrepreneurship research that explores the dynamism of communities of inquiry, potential opportunities as boundary objects (including prototypes), and founders.

**Community of inquiry and emergent organizing.** While we are gaining a deeper understanding of how founding teams engage in the activities of emergent organizations, there are other relationships that have received less scholarly attention despite their apparent importance. We argue that it is important to understand how a community (or communities) of inquiry influence (and are influenced by) the potential opportunity and by other aspects of emergent organizing. For example, to what extent (and how) are communities of inquiry responsible for aspects of emergent organizations, such as the sequence of nascent activities and the quality and speed of completion of those activities? And how does the nature of the potential opportunity (e.g., prototype or minimum viable product as manifestation of potential opportunity) indirectly influence organizing activities through the input of the community of

inquiry? Moreover, it is likely that there are sub-communities with an indirect role in the emergence of the new venture and perhaps also in the emergence of the overall community of inquiry, based on how they engage with and/or disengage from one another. Why and how are some sub-communities involved in the organizing activities while others are not and when does sub-community input obstruct rather than facilitate progress in emergent organizing? There is also much to learn about how founders “manage” members of the community of inquiry, how members of the community of inquiry “manage” founders, and how sub-communities “manage” other sub-communities throughout the emerging organizing process.

**Emergent organizing and new venture strategy.** Although we have a substantial stream of research which is self-labeled as new venture strategy, much of this literature applies to new ventures beyond the startup phase (and thus beyond the focus of the current study), for example focusing on return on investment or other growth outcomes more appropriate for scaling ventures than for startups. Not only do we need research on the strategies of early-stage new ventures and more proximal outcome variables, there is an opportunity to better explore the relationships between emergent organizing and new venture strategy. Future research could explore how different emergent organizing processes or paths lead to the formulation and enactment of different strategies. Indeed, emergent organizing provides an opportunity to theorize and empirically explore how the building blocks of a new venture’s strategy are initiated, developed, and deployed. For example, by investigating the role of the founding team on emergent organizing activities we are likely to gain a deeper understanding of the creation of capabilities, routines, norms, organizational culture, and so on as the basis (or perhaps even the dynamic outcome of) a new venture’s strategy. Understanding the micro foundations of new venture strategy will make important contributions to both the entrepreneurship and strategic management literatures.



**New venture strategy and outcomes.** There are research opportunities to extend and develop new theory on the relationship between the strategies of startups and proximal outcomes. Such research can build on the sociological research on legitimacy to explore how new ventures' strategies can increase legitimacy (or otherwise limit the downside effects of liabilities of newness), make the most of low legitimacy (in what ways can low legitimacy represent a potential advantage and how can that advantage be exploited?), and whether there are illegitimate new venture strategies that are effective at building legitimacy (i.e., extending the work on legitimacy lies). Moreover, the nature and level of organizational emergence is important in understanding the relationship between new venture strategies and legitimacy. Indeed, future research can explore the direct and indirect (via organizational emergence) impact of new venture strategies on legitimacy. There might be instances in which new venture strategies that promote rapid organizational emergence, have a negative relationship with legitimacy (e.g., growing too fast is consistent with the notion of a bubble or perhaps unethical behavior). Moreover, while potential stakeholders provide or assign legitimacy, it is important to understand how various forms and levels of legitimacy influence changes in the composition, diversity, and usefulness of the community of inquiry and how these effects impact subsequent processes, including refinement of the potential opportunity, emergent organizing, and changes in the new venture's strategy (e.g., a pivot).

**Organizational emergence and founder exit.** There has been limited but highly important research on founder exit. Future research can extend these studies and/or theorize anew on how the different forms, progress, and paths of organizational emergence impact the time, the type, and the reactions to founder exit. Perhaps the effectiveness of new venture strategy for rapid organizational emergence leads to the involuntary exit of the founder (i.e., in a similar logic to the founders' dilemma [Wasserman, 2008]). Perhaps the founders exit is driven

by the community of inquiry. It could be that as the new venture process proceeds and the nature of the community of inquiry and/or stakeholders change and/or the nature of the potential opportunity changes, so too does the requirements, expectations, and satisfaction with the current lead founder. In contrast, perhaps some founder exits involve dynamics internal to the founding team. Given that we do not have a good understanding of how the lead founder becomes the leader, enacts his or her leadership, and have others follow, it is not surprising that we do not have an adequate understanding of the internal processes by which a lead founder is replaced, and the consequences for the motivation and togetherness of the founding team, going forward.

**External environment and entrepreneurial agency.** Although there is a recent emphasis on context (Welter, 2011) and an understanding of how the environment can impact the startup of a new venture (Fritsch & Storey, 2017), there is more to learn about how the players in the process of starting up a new venture can both adapt to changes to the environment and, by their actions, change the environment. How does the emergence of a new venture, pursuing a particular opportunity with a particular community of inquiry, and with a particular founding team, enact substantial changes to the environment? Therefore, we hope future startup research does not take the environment as some static, all-powerful force but explores entrepreneurial agency—how new ventures can substantially change the environment for themselves and others. Such an approach is particularly important when thinking about how new ventures can improve (or destroy) the natural environment, improve (or destroy) the economic and social welfare of others, and improve (or destroy) cultures and communities. Of course, as we recognize the role of the startup process on the external environment, there are opportunities to explore the causes, nature, and consequences of a mutually dependent relationship between a startup and the external environment (for the startup, for other startups, for founders and founding team, for stakeholders and communities of inquiry, for organizational emergence, and

for the new venture's [and other new ventures'] legitimacy). Although challenging empirically, we believe it is critically important that future research investigate the reciprocal nature of the relationship between starting up a new venture and the external environment.

**From startup to scale up.** Future research can continue from where we stopped—linking the process of starting up a new venture to the process of scaling a new venture. We believe too often the startup and scaling stage are merged (or the differences ignored), which has obstructed knowledge creation. Therefore, there is considerable opportunity to explore how the startup phase impacts the scale-up phase. Although some activities may remain consistent across phases, there are likely a number of changes that indicate the need to transition, a number of changes to implement the transition, and a number of changes in both the inputs and outcomes of the transition from start up to scale-up. We believe research at the interface of the startup and scale-up phases can make important contributions to the entrepreneurship literature and provide an important bridge to the strategic management literature.

## **Conclusion**

New venture creation, namely the phenomenon of starting up a new organization, is at the core of the field of entrepreneurship and is also informative to the broader field of management. The literature on new venture creation has rapidly evolved in the past two decades. Hence, in this paper, we reviewed the new venture creation literature subsequently to 2003, when the previous major review on the topic was published (Shook, Prime and McGee, 2003). Based on a systematic review of 143 papers published in our top management and entrepreneurship journals, we inductively generated a framework. Our framework aims to provide a comprehensive view and a cohesive story of the literature until today. We then offer a road map for future research on creating new ventures, focusing less on extending our knowledge *within* each subtopic separately, and more on understanding the links *between* the sub-topics.

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**Figure 1: Illustration of Prior and Proposed Research on Starting Up New Ventures**

